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PACIFIC TELESIS.
Group-Washington

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

November 13, 1992

Donna R. Searcy
Secretary
Federal Communications Commission
Mail Stop 1170
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Dear Ms Searcy:

Re: *CC Docket No. 92-91 - Open Network Architecture Tariffs of Bell Operating Companies*

On behalf of Pacific Bell and Nevada Bell, please find enclosed an original and six copies of its "*Rebuttal*" in the above proceeding.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,

Jo Ann Goddard

Enclosures

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Open Network Architecture Tariffs of Bell Operating Companies	)	CC Docket No. 92-91
	)	

ORIGINAL FILE

REBUTTAL OF PACIFIC BELL AND NEVADA BELL

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Date: November 13, 1992

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SUMMARY

Pacific Bell and Nevada Bell (the "Pacific Companies") respond to selected issues raised in the comments and oppositions to the direct cases. The Pacific Companies dispute the viewpoint that SCIS provides them with too much flexibility in developing BSE rates. They also dispute the contention that commenters were denied meaningful access to the SCIS model.

The Pacific Companies defend their use of the SCIS model. Specifically, their use of average cost was appropriate. Pacific Bell's inclusion of the 1AESS switches in its costing methodology accurately reflected its forward-looking costs. Likewise, Pacific Bell's model office is representative of its actual switched environment. It was reasonable for Pacific Bell to use different overhead loadings for switched access and special access services because they have different administrative costs. Finally, Nevada Bell's pricing of ANI and the corresponding Local Switching rate was a reasonable means of achieving revenue neutrality.

Finally, the Pacific Bell disputes the notion that different rates for the same BSE means that some rates must be unreasonable. In addition, Pacific Bell does not believe that additional guidelines such as those proposed by ETI would produce rates which meet the pricing and policy goals established by the Commission substantially more so than the rates proposed in the initial filings.

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of Bell Operating Companies)
)

REBUTTAL OF PACIFIC BELL AND NEVADA BELL

Pacific Bell and Nevada Bell (the "Pacific Companies") hereby respond to selected issues raised in the comments and oppositions to the direct cases.

I. The SCIS Model Provides An Appropriate Level Of Flexibility.

Many of the commenters argue the that the Switching Cost Information System ("SCIS") provides the local exchange companies ("LECs") with too much flexibility in developing BSE rates.[1] The Commission chose a flexible cost-based approach allowing LECS to develop their own costing methodologies with the caveat that the costing methodology chosen must be used for all related services.[2] Use of SCIS is consistent with the Commission's directive. Although the LECs have the opportunity to use different inputs into the SCIS model, this flexibility is appropriate and necessary.

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[1] See e.g., Opposition of the Ad Hoc Telecommunications Users Committee, p. 7; Opposition of MCI, p. 3; Opposition of WilTel Inc. p. 2.

[2] In the Matter of Amendments of Part 64 of the Commissions Rules Relating to the Creation of Access Charge Subelements for Open Network Architecture, CC Docket Nos. 89-79 and 87-313, 6 FCC Rcd 4524, para. 42 (1991).

Identifying BSE costs is a complex task because there are many costs that affect the costs of service: total demand differs by LEC; expected utilization of BSEs differs by LECs in accordance with customer applications; technological make-up of the network varies among the LECs; economic conditions differ across the country; and each LEC pays different rates for identical equipment according to the contracts negotiated between LECs and equipment vendors. SCIS also permits LECs to estimate costs based upon the switch software generics which are, in fact, deployed. SCIS allows for these important differences. While a less complex model could facilitate ease of intervenor examination and reduce variation in cost outputs across LECs, such a model would omit important cost drivers, produce less accurate results, and cause high-cost LECs to be financial losers and low-cost LECs to be financial winners.

Several commenters[3] also questioned why LECs should have the ability to choose different versions of the SCIS. Different versions of SCIS reflect different generics in the switches. Therefore, it is entirely appropriate for a LEC to use the version that matches the generics deployed in its network.

II. The Intervenors Were Provided With Meaningful Access To The SCIS Model.

Many commenters argue that they were denied meaningful access to the SCIS model because the redactions were too

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[3] See e.g., Comments of Metromedia, p. 12; Opposition of Ad Hoc, p. 7; Comments of Allnet Communications Services, Inc., pp. 7-8.

extensive.[4] The Pacific Companies did not perform specific redactions of SCIS. The switch vendors informed Bellcore of the information relating to switch costs that should be removed because of competitive concerns. In addition, the redaction removed the algorithms that represent the intellectual property of Bellcore. The Arthur Anderson review included the algorithms in its study of the reasonableness of the SCIS model and its report to the Common Carrier Bureau. The report concluded that the model is "fundamentally sound and provides reasonable estimates of switching system investment."[5]

Furthermore, the U.S. District Court for the District of Columbia concluded that SCIS contained confidential commercial information and the restrictions the Commission placed on its disclosure were justified.[6] That these restrictions were appropriate is essentially beyond dispute.

III. <u>The Pacific Companies Use Of Average Cost Is Appropriate</u>.

WilTel argues that use of average costs will not achieve the Commission's goal of economically efficient pricing.[7] This is not necessarily true. There are degrees of pricing efficiency. First order pricing efficiency exists when

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[4] See e.g., Opposition of WilTel Inc., p. 19; Opposition of Ad Hoc, p. 4; Comments of Allnet Communication Services, Inc. p. 1; Comments of Metromedia, p. 4.

[5] Arthur Andersen Report, §1.5.

[6] Allnet Communication Services, Inc. v. FCC, No. 92-1350 (CRR) (D.D.C. August 31, 1992).

[7] Opposition of WilTel, p. 5.

rates are established equal to marginal (or for practical purposes, incremental) costs. The Commission did not mandate first order pricing efficiency for good reason. In general, incremental costs are less than average costs for LECs. A LEC would lose money if the prices for all its services were set at incremental cost. The Commission implicitly recognized this fact in establishing costing and pricing guidelines that permit the LECs to recover an appropriate amount of overhead.

Lesser order pricing efficiency occurs when rates are developed based upon incremental costs. Such pricing schemes are appropriate when first order pricing efficiency results in under-recovery of total costs by the firm. Pacific's costs are developed based upon incremental costs as developed by the SCIS model. The difference between the average cost and marginal cost parameters of SCIS is the treatment of "getting started costs," i.e., the fixed costs caused by switch placement. The SCIS marginal cost option develops a unit getting started cost based upon the total effective capacity of the switch. The average cost option calculates this metric based upon the expected demand. To the extent that expected demand is less than effective capacity, the unit getting started cost is higher. Consequently, the average cost option permits identification of BSE costs which are consistent with total recovery of switch costs.

The Pacific Companies' direct and total costs (i.e., direct costs plus overheads equaling average costs) are based upon the marginal costs of the service estimated by SCIS. This is consistent with the Commission's cost guidelines and in accord with the Commission's policy of promoting efficient pricing. To use solely marginal costs without any recovery of overheads would recover only part of the switch costs that result from the introduction of ONA services.

IV. Pacific Bell Properly Included 1AESS Switches In Its Costing Methodology.

WilTel states that Pacific Bell incorrectly included 1AESS switch technology in its forward looking costs.[8] On the contrary, the 1AESS switch technology was properly included because of the opportunity cost of using 1AESS switch capacity. The 1AESS continues to be a viable switch technology to meet customer needs in selected geographical areas for the foreseeable future. Valuing 1AESS switch capacity at (presumably) lower digital levels could conceivably increase demand and cause switch exhaust and replacement when it would not have otherwise occurred. Moreover, digital technology is not always the least cost option. Although 1AESS switches are expected to be grandfathered by 1997, Pacific still incurs incremental costs to upgrade existing generics, retrofit switches for SS7 compatibility, add lines/trunks and reconfigure software packages if the need arises.

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8 Opposition of WilTel, Inc., p. 11.

V. Pacific Bell's Model Office Is Representative Of Its Actual Switched Environment.

WilTel suggests that Pacific Bell manipulated its model office development by excluding newer switches.[9] Yet WilTel acknowledges that the reason Pacific Bell excluded any switches was that it lacked sufficient traffic data. As Pacific Bell explained in its direct case, its model office population represents 78% of its total switch population. Pacific Bell submits that its population of the model office is reasonable and that it is representative of Pacific Bell's actual switched environment.

VI. Pacific Bell Has Used Proper Overhead Loadings.

MCI notes that Pacific used a different overhead loading for its Network Reconfiguration Service and even provides the justification that Pacific Bell gave in its direct case.[10] Nevertheless, MCI sees Pacific's action as a reflection of the excessive pricing flexibility afforded the LECs.[11] On the contrary, Pacific Bell's use of a different overhead loading for a special access service as opposed to switched access services demonstrates the value of reasonable pricing flexibility. It permits services with different administrative costs to bear those costs in a realistic and efficient manner. To require Network Reconfiguration Service to use the same overhead loading as all other services ignores the fact that

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[9] Opposition of WilTel, Inc., p. 16.

[10] Opposition of MCI, p. 25.

[11] Id.

switched access and special access services have different administrative costs.

VII. Nevada Bell Priced ANI Appropriately.

Metromedia views Nevada Bell's pricing of ANI as a type of rate manipulation.[12] However, as Nevada Bell explained in its Direct Case, ANI has a monthly rate of $.000253. This low rate coupled with low demand meant that there was no change in the unbundled Local Switching rate corresponding to this BSE. Consequently, the unbundled cost of Local Switching plus ANI would have been greater than the bundled cost and revenue neutrality would not have been achieved. To achieve revenue neutrality Nevada Bell lowered the Local Switching rate by a very small amount. This type of adjustment is a reasonable means of achieving revenue neutrality.

VIII. Different Rates For The Same BSE Can Be Reasonable.

The General Services Administration found the variables used by the Bell Operating Companies ("BOCs") in rate development to be reasonable.[13] However, the GSA expressed concern about the differences in the rates for seven BSEs and stated that GSA has never seen explanations for differences.[14] Pacific Bell addressed this same issue for three of the BSEs, Multiline Hunt Group-Central Office Announcement,

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[12] Comments of Metromedia, p. 9.

[13] Comments of the General Services Administration, pp. 3-6.

[14] Id. at p. 7.

Multiline Hunt Group-Uniform Call Distribution, and Three Way Call Transfer, in its Reply to Petitions to Suspend and Investigate.[15] In addition, Pacific Bell fully documented the costs and rates in Transmittal 1553, pages 4,d,4 and 4,d,7 through 4,d,14 as well as Transmittal 1571. Pacific Bell's rates for Calling Billing Number Delivery and Multiline Hunt Group are comparable to most of the other BOCs. Pacific Bell's rate for Multiline Hunt Group - Uniform Call Distribution with Queuing is comparable to NYNEX's rate.

IX. There Is No Need For Additional Guidelines For Rate Development.

Ad Hoc states that additional guidelines are necessary to ensure that the BOCs do not have unbounded flexibility in setting rates.[16] AD Hoc attaches a report from Economics and Technology, Inc. ("ETI") and supports the recommendations made in the ETI report.[17] Pacific Bell agrees with most of the guidelines proposed by ETI. However, following all five guidelines proposed by ETI would not produce rates which meet the pricing and policy goals established by the Commission substantially more so than the rates proposed by the LECs in their initial filings. Addressing the plan on a point-by-point basis:

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[15] The portion of Pacific's Reply relating to these services is attached as Appendix A.

[16] Opposition of Ad Hoc, p. 10.

[17] Id. at pp. 10-11.

(1) ETI recommends that cost studies for new services reflect the actual mix of switch facilities and other resources that will be used to provide the service (i.e on a forward-looking, incremental basis). Pacific Bell did so in its original filing.

(2) ETI proposed a three-year facilities planning period and notes that it is important the economic cost studies reflect that actual capacity conditions, probabilities of exhaust, plant utilization, and assumed levels of breakage. Pacific Bell used the best information available on these factors in its three-year planning period.

(3) To calculate unit investment costs the FCC guidelines should specify usage of EF&I investment inputs. Pacific Bell used EF&I (Engineered, Furnished, and Installed) investment inputs.

(4) The development of loading factors should be shown in steps, with the underlying values. Underlying values used to calculate the loading factors are proprietary if they depict information below the level of USOA accounts. Pacific Bell is willing to share this with interested parties upon execution of an appropriate non-disclosure agreement. ETI suggests that the Commission should require a responsible officer to certify that loadings applicable to the service in question are the same as those applied to other services that utilize the same resources. The certification process is burdensome and would not improve the accuracy of the loading factors.

(5) LECs should be required to use the most recent version of SCIS applicable to their current or three-year planned network configuration. Pacific Bell does not oppose industry agreement to use a particular version of SCIS, provided the version is applicable to Pacific Bell. As noted previously, some versions of SCIS may be specific to a particular generic switch which Pacific Bell has not deployed. A waiver should be available in that situation. In addition, populating a standard SCIS version may be unduly burdensome. Waivers should be available in those cases also.

X. Conclusion.

The Pacific Companies' answers to the comments on their direct cases show that their BSE rates are just and reasonable. Therefore, they should be permitted to remain in effect without change.

Respectfully submitted,

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Date: November 13, 1992

<u>CERTIFICATE OF SERVICE</u>

I, D. E. Van Laak, hereby certify that copies of the foregoing "REBUTTAL OF PACIFIC BELL AND NEVADA BELL", re CC Docket No. 92-91, were served by hand or by first-class United States mail, postage prepaid, upon the parties on the attached Service List on this 13th day of November, 1992.

By: D. E. Van Laak

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0520B

Petitioners allege the rates for three of Pacific's services are unreasonable because they are out of line with other BOCs' rates. They are CO Announcement, Multiline Hunt Group Uniform Call Distribution (UCD), and Three Way Call Transfer. All three are BSEs for which Pacific projects little or no demand. As shown below, such generalized allegations and unsupported rhetoric should not distract the Commission from the facts.

Pacific's unit investment for CO Announcement varies substantially depending on switch technology, from $15.30 for DMS switches to $4588 for 5ESS switches. Clearly differences in technology mix alone would account for large differences in costs and rates for this BSE.

The cost for Three Way Call Transfer depends on the number of calls a customer would transfer per line. Since Pacific does not project any customers to take Three Way Call Transfer on its lineside BSA, it is difficult to estimate precisely the number of calls a customer would transfer if the customer did not buy the service. If a customer ordered Three Way Call Transfer, Pacific expects that it would be a customer using FGA as an "800 service" substitute (id., pp. 4.a.3 and 4.a.4), because "800" customers use phone lines to take orders and, therefore, would transfer calls out of the office relatively infrequently.

Pacific's costs and rates for UCD are fully documented in its filing. Id., 4.b, 4.d.4, and 4.d.12. Pacific's rate for UCD of $2.75 is comparable to Ameritech's rate of $2.70 and US West's rate of $2.45.

See AT&T Petition, pp. 14-17; Ad Hoc Petition, p. 15; Allnet Petition, pp. 3, 7, 10; GSA Petition, pp. 6-7.

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